

DIVISION OF ACCOUNTS AND REPORTS POLICY AND PROCEDURE MANUAL

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SUBJECT

Basis of Accounting

PURPOSE

To provide a brief explanation of the basis of accounting and the basis used by the State.

AUTHORITATIVE REFERENCES

Governmental Accounting, Auditing and Financial Reporting, Government Finance Officers Association

“Statement No. 17: Measurement Focus and Basis of Accounting – Governmental Fund Operating Statements: Amendment of the Effective Dates of GASB Statement No. 11 and Related Statements – an amendment of GASB Statements No. 10, 11, and 13,”
Governmental Accounting Standards Board

“Statement No. 11: Measurement Focus and Basis of Accounting – Governmental Fund Operating Statements,” Governmental Accounting Standards Board

GENERAL INFORMATION

A fund’s basis of accounting refers to when revenues, expenditures, expenses and transfers – and the related assets and liabilities – are recognized in the accounts and reported in the financial statements.

The common bases of accounting include:

- Cash Basis
- Accrual Basis
- Modified Accrual Basis

Cash Basis Accounting:

Cash basis accounting provides for the recording of revenues when received in cash and the recording of expenditures when paid in cash. While cash basis accounting may be necessary for legal compliance, it does not facilitate accurate reporting of financial position and is considered inappropriate for reporting the financial position of any fund.

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Modified Accrual Basis:

Modified Accrual Basis accounting recognizes an economic transaction or event as revenues in the operating statement when the revenues are both measurable and available to liquidate liabilities of the current period. Available means collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period. Similarly, expenditures are generally recognized when an event or transaction is expected to draw on current spendable resources.

Accrual Basis Accounting:

Accrual basis accounting records the financial effects of transactions and other events and circumstances that have cash consequences in the periods in which those transactions, events and circumstances occur, regardless of the timing of related cash flows.

Generally accepted accounting principles (GAAP) for governmental accounting and financial reporting established by the Governmental Accounting Standards Board (GASB) apply different bases for different types of funds as follows:

Governmental Funds: Governmental funds use modified accrual accounting. The General Fund, Special Revenue Funds (including the Highway Fund) and Capital Projects Funds are Governmental Funds.

Proprietary Funds: Proprietary funds use full accrual accounting. Enterprise Funds and Internal Service Funds are Proprietary Funds.

Fiduciary Funds: Fiduciary funds are reported based on the type of fund. Expendable trust funds and agency funds use modified accrual accounting. Non-expendable trust funds and pension funds use full accrual accounting.

Additional information regarding the State's classification of funds can be found in the Division of Accounts and Reports, Policy and Procedure Manual Filing Number 4,272.

Some state agencies currently prepare financial reports on the GAAP basis. The State's annual financial report currently reflects modified cash basis accounting with the intent that it will become GAAP basis in the future. The modified cash basis used is cash basis with encumbrance modification.

Encumbrance Method: The central accounting system utilizes the encumbrance method which requires that prospective expenditures such as purchase orders and executory contracts be recorded in the accounting records. The term encumbrance refers to these

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prospective expenditures. Encumbrances are recorded in the central accounting records when the Division of Accounts and reports receives notice that purchase orders have been issued or contracts have been made by state agencies. Encumbrances are liquidated upon actual expenditure or upon direct reversal of the amount previously encumbered. By encumbering prospective expenditures in the accounting records, available balances of appropriations and other expenditure authority may be readily determined in order to prevent illegal over-expenditure of resources by a state agency.

CONTACT SOURCES

For additional information concerning the basis of accounting, please contact:

Division of Accounts and Reports
Central Accounting Services Section